Highlights of Responses to UEP Questionnaire
February 2005

I. Access to Capital

Respondents identified access to capital as the largest impediment to the success of minority businesses. Minority firms often perceive that they are excluded from private and public financing. Lack of collateral to secure credit lines and loans is the main reason cited. This is most likely a result of the wealth gap. Although conditions are slowly changing, minorities generally do not have the access to established family wealth.

Establishing a promising credit history and successful track record is a problem for many. Many venture capital firms and loan institutions are hesitant to bear the perceived risk associated with small minority businesses. Capital firms often hold small, upstart businesses to the same requirements as large, well-established businesses. They would rather go with a proven company.

Often financiers lack access to a substantial amount of quality data on the success of small minority owned businesses. They do not realize the untapped potential in the minority sector. Therefore, greater education is necessary to enhance the access to capital for minority firms.

Many capital firms offer much lip service to minority businesses. Several respondents said they wasted numerous hours following up on empty commitments by venture capitalists. There is a need for venture capitalists with minority business experience.

Some minority firms need assistance to create a sound legal business strategy and structure. Readily available access to coaching and mentoring would help overcome this barrier.

90% of respondents:

- Have not been an "angel" investor.
- Have not received funding from an "angel" investor.
- Were willing to join the "angel" network.
- Started their business with personal savings or family funds.

Barriers have affected all types of capital. Short-term, long-term, private, and government capital are all limited for minority firms. Long-term capital seems to be a particular problem. The two owners that tapped the angel networks have successfully gained the short-term capital needed for rapid growth. One respondent commented that Angel investors and venture capitalists require too much control and return. To start their business, all but one owner used personal savings or a loan from a friend or family. Even when minority businesses surpass their profit expectations, it remains a challenge to receive financing.

II. Contract Procurement

Public sector procurement opportunities were identified as the most difficult to obtain. Some said it is near impossible to break into the federal arena. However, private sector procurement is also an issue. The Federal government seems like a monolithic bureaucracy, which is near impossible for small businesses to gain access to.

Bundling of government contracts makes it very difficult for small businesses to compete against larger firms. Many minority businesses do not have access to the capital necessary to be competitive. Government agencies are reluctant to give small firms contracts even with good track records.

50% of respondents have joint ventured with other firms to bid for supplier's contracts. Most of these joint ventures were made with other minority firms. 100% of respondents said they were willing to joint venture and said a contact network to facilitate such ventures would be very beneficial. Many were excited when a contact network was mentioned.

Many respondents mentioned that there is an "old boy" network, which limits procurement opportunities. Minority firms often do not have the established insider relationships that majority firms do. A number of respondents stated - it is who you know, not what you know, that often determines who gets what contracts.

Established firms often dominate procurement. Pre-established relationships between customers and suppliers are hard to change. Also, incentives to work with a minority firm are small.

When large firms acquire contracts they are not held accountable to the small business participation goals. One respondent recommends - small and disadvantaged businesses should be named in utilization plans before final bids are accepted. There is no enforcement of the laws to help small disadvantaged businesses.

80% of respondents participate in a minority supplier "certification" program. They provided both positive and negative comments on certifications. 40% of respondents are 8a certified. Overall, the 8a meets many clients' criteria, but was cited as being time consuming and expensive. Even with 8a certification, government procurement officers prefer GSA Schedules as a contracting vehicle. Many are members of National Minority Supplier Development Council, which received very high marks. The NMSDC was identified as widely respected and accepted. State and local MBE's were cited as not meeting client criteria well. A problem repeated is there is no real uniformity or oversight in certification programs. One respondent suggested that there should be one universal certification, which would be respected by federal, state, and local governments, as well as the private sector. Respondents cited that certification is often costly and too time consuming.

Some firms needed coaching on how to obtain better access to contracts.

III. Coaching

More than half of respondents have received coaching or mentoring. Most who received coaching or mentoring indicated that it contributed to their business success. Many who did not receive coaching said they believed it would be beneficial to seek a mentor or coach. By 3 to 1, most owners are not being coached now.

The mentoring and coaching would be most effective if it were administered by someone with experience in the field of the firm seeking assistance. These coaches and mentors need to work with the firms on obtaining and fulfilling actual contracts imparting a working knowledge of the operation. Mentors should be sincere in their actions and willing to help even if it is at little benefit to them. Mentors should help firms develop infrastructure to run a successful business.

Owners have acquired training through the SBA, MBDA, and private firms. The Tuck MBDA program was spoken highly of as an effective training program. Other firms have shared knowledge with joint ventures and business partners and seminars.

70% of firms' business plans are successful. For those that are not, several commented that coaching and mentoring would aide in developing or modifying a successful business plan. 10% have no plan. Funding remains a problem. Some companies were not able to acquire coaching due to the cost.

Lack of capital was repeated as a reason companies did not achieve projected success. Firms displayed a need for a financial planning coach or someone who was experienced with raising capital.

Of the 66% of respondents with an exit plan, most said that they were training a handpicked successor to run the business. Others will sell out to larger companies or partners or sell their patented material.

The main hindrance to attracting and retaining promising executive management is a lack of funds. Many companies' most skilled employees move on to higher-paying jobs after earning necessary experience. Many firms have relied on inter-company training to develop new managers. Owners were split evenly on their success of recruiting executive management.

IV. International Operations

Most respondents do not conduct business internationally, but would consider expanding abroad if all the right components were in place. 90% indicate they currently do not participate in international operations. 50% said they would be interested in expanding overseas if they obtained the capability to do so.

The primary hindrance identified in several replies was a lack of training in international operations. Several firms stated that they were not familiar with the legalities involved with the sector. A few firms have sought guidance with the Department of Commerce and International Trade Office to identify possible foreign markets.

Procurement of international contracts has been difficult for a few firms attempting to expand internationally. Bundling of contracts makes many opportunities unavailable to smaller firms who cannot fulfill the requirements.

Expansion of minority small business abroad, just as expansion domestically, is impended by a lack of funding and readily available capital.